STATEMENT OF THE HONORABLE BOB BERGLAND,
SECRETARY OF AGRICULTURE,
BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
March 24, 1977

Mr. Chairman, this is a new experience for me, to be across the table from the Committee, but my purpose in this hearing remains the one I shared with the Committee in my years on the other side of the table: that of helping to create farm programs and policies that best serve both farmers and their customers.

Therefore, I am pleased to have the opportunity to present for the Committee's consideration the recommendations of this Administration for a food and fiber program to meet this country's needs after the current authorities expire.

We offer this as a base from which to work with the Committee to obtain legislation that will protect those who produce our food and fiber and those who consume it from the natural and economic disasters that the recent past has shown to be part of the real world of agriculture for both farmers and consumers.

I told your colleagues on the Senate side yesterday--and I will repeat it today because I believe it very strongly--that over the past five or six years all of us--legislators, farmers, consumers, both here and abroad--have had a crash course in agriculture from that most effective institution of all: the school of hard knocks.

Consumers got the first lesson--in 1973 and '74, when a series of worldwide events, with which you are familiar, produced an unprecedented foreign demand for U. S. farm products. Consumers, faced with rising food prices and shortages, real or apparent, discovered that milk and

meat come from cows, and bread from wheat, not the supermarket. They learned that the source of food was not the warehouse, but somewhere beyond it, out in the country -- on the farm, to be exact. And they learned that farm production can't be turned on and off as the factory assembly line; they learned that when this year's stock is gone, you wait until next year's crop for new supplies, and if you want beef, you wait even longer.

That situation produced a lesson for bureaucrats. They proved to be slow learners, I'm afraid, as beef price controls, the soybean embargo of 1973 and subsequent tinkering with exports in 1974 and again in 1975 taught that you can't cope with the broad problems of food and agriculture on an ad hoc, crisis to crisis basis.

For their part, farmers in this period gained a new appreciation of the income potential in foreign markets as expanding exports sent farm income to new highs. They increased acreages and investment, and the share of U.S. agricultural production going into export rose from 15 percent to more than 20. In some cases the ratio was even higher -- half or more for wheat, soybeans and rice, for example.

However, farmers also learned that surging foreign demand can cut two ways. Rising grain costs pushed some livestock producers over the cliff, and forced others to cut back production in order to survive. And grain farmers, after an exhilarating period of expansion, today are finding that net income is declining as prices retreat while costs continue up. They are finding that the export markets for which they are

geared are not a guaranteed yearly source of demand growth -- that demand for U.S. products varies with production in other countries, those that export as well as those that import.

Farmers know, from matching 1976 income against 1976 expenses, what the economists now tell us: that in terms of dollars in 1972, the beginning of the sharp rise to new prosperity, farmers' realized net income -- their purchasing power -- in 1976 was almost 10 percent less than it was in 1972.

In the same period, food prices for consumers have risen by more than 40 percent, and, while the share of consumer income expended for food remains less than 20 percent on a national average, that is no consolidation to people with low incomes--to some of whom food stamps mean more to the food budget than anything else.

Those of us in the Congress during this period -- myself included -- were reminded once again that rampant boom in agriculture is always followed, to one degree or another, by bust in a cycle that puts extreme stress on farmers and consumers alike.

Finally, the ultimate lesson of this period of supply and demand instability, the one that is there for all to see if they will, is that weather still largely determines how much each farmer, in each country, can produce in a given year, and their harvests determine the world's food supply and therefore the state of the market.

We can't control the weather, but we can, if we try, control its effects. We can temper the influence of rain, or drought, and heat and cold on food supplies, and hence on farmers and consumers. We can do it

with an agricultural program for all seasons--good, bad, or average--if I may bowdlerize Sir Thomas Bolt.

The task we face is to create legislation that will maintain a workable and profitable export stance for agriculture, while cushioning farmers and consumers alike against wild swings in prices and supplies.

Our recommendations to the committee address five areas that we feel must be served to do the job right. They are:

1. Protection for farmers against economic disaster, with a system of price support loans, plus a provision for income support payments when warranted by world supply and demand conditions.

2. Protection for farmers against natural disaster, with a rational program for speedy and adequate help.

3. Protection for consumers and other grain users against inadequate supplies, with a program that maintains a supply balance against periods of production shortfall or oversupply.

4. Protection for the poor in this country against hunger and malnutrition, with reform of the Food Stamp Program that I will discuss with you at a later date.

5. Affirmation of U.S. agriculture's global commitment to supply food on commercial terms to those countries that want it to support a better standard of living, and on concessional terms to those countries that must have it to survive. We will do this by gearing our price and income proposals to the world market, and by adjusting the P.L. 480 program

to provide more funds for emergency food aid under Title II, and to make Title I more flexible in helping poor countries to help themselves.

FARM PRICE AND INCOME SUPPORT, CONSUMER PROTECTION

Our specific objectives cover farm price and income support in a program that incorporates a farmer-owned reserve of grain to moderate extremes of price that have proved detrimental to farmers and consumers alike.

To protect farm prices, we propose that a floor, related to the market price as well as farmer costs, be placed under market prices for grains, soybeans and cotton.

You will note that corn and other feed grain loan rates are set on a basis which allows wheat to compete in animal feed rations when there is an oversupply of grain.

The soybean support level is set by the Secretary in relation to other crops on the basis of the world supply-demand outlook for grain and oilseeds.

The price support level for cotton is equal to 85 percent of the 4-year average spot price, unless world prices are substantially less than domestic -- in which event the price support level would be lowered.

To protect farm income, we propose an income support level for all grains, oilseeds, and cotton that is equal to the direct cost of production, plus a return for management, and a land ownership return equal to 1 1/2 percent of the current value of the land. In the years beyond 1978, we would gear income support levels only to changes in direct costs and yields.

We recommend that acreage allotments, which no longer reflect existing production patterns on individual farms, be eliminated, and that income support payments when needed be made on the basis of current or the prior year's plantings, reflecting market demand. The per unit payment would represent the difference between the actual price received by farmers and the income support level.

We recommend that authority for the Secretary of Agriucleture to set-aside acreage when supplies are excessive be retained, with set-aside acreage geared to plantings in the current or preceding year.

A grain reserve mechanism is necessary if we are to achieve a farm program that meets the need of the farmer to have some sort of signals on the course of the market as he plans his production, and that meets consumer needs for an adequate food supply within a reasonable price frame.

Adding to a grain reserve when large supplies depress prices will steady farm income, and it will maintain needed food supplies in times of shortfall, cushioning farmers and consumers alike against wild price gyrations.

Reserves also are in international consideration, in which the United States is committed to maintain a fair share. We will continue in negotiations with other nations to establish some sort of an international food security system. Meanwhile, we recommend that we begin with a food grain reserve program in the United States that will not prejudice our international negotiating ability. We are not again going to become the world's grain warehouse.

The plan we hope to implement in a matter of days is for food grains -- wheat and probably rice. It would provide farmer incentives to hold grain off the market until prices reach a specified level, and to sell when that level is reached or exceeded. We would accomplish this through an extended reseal program, with prepaid farm storage. The regular first year nonrecourse loan program is maintained, and an extended reseal program that can be implemented on an individual commodity basis as needed is offered.

The program would offer a contract for one year for warehouse stored grain and three years for farm-stored grain, with an option to extend the contracts if the situation requires. The Commodity Credit Corporation would assume storage costs at the rate of 20 cents per bushel yearly for farm stored grain, paid in advance at the beginning of each storage year. For warehouse stored grain, the rate would be the current CCC storage rate to warehousemen, paid quarterly, but not in advance.

The farmer could not sell the grain and repay the loan without penalty until the market price reached a specified percentage of the loan rate, or at the expiration of the contract. If sales are made at less than this designated level, the repayment amount would include not only the loan principal and interest, but any storage payment made, with interest from the date of the payment.

For sales made at the release level, the repayment would be principal and interest; all loans would be called when the market price reached a specific upper limit. Storage credit would cease after the release level was reached.

The program would include a provision for emergency release for sale if the stored commodity is endangered by fire, flood, or similar other hazards.

The total quantity eligible to be held in the extended reserve would be 300 million bushels, pending the resolution of the reserve question in our international negotiations.

Disaster assistance may not bulk large in the total food and fiber picture, but experience has shown it to be crucial to those farmers who have been hit by natural forces beyond their control. We believe that recent experience has exposed deficiencies in the existing Disaster Payments Program that must be corrected. These relate to the outdated acreage allotments, the method of determining eligibility, and the prevented-planting provisions, especially for cotton.

We are assessing alternatives that would provide genuine risk protection for producers. To allow further study and development, we recommend a 1-year extension of current authorities, with some modifications to improve their effectiveness and remove inequities.

We propose elimination of the "snap back" provision under which a farmer producing one unit less than two-thirds of normal receives full payment while a farmer producing one unit more receives nothing, and elimination of the prevented planting provisions, whereby producers prevented from planting receive payments.

For the interim we recommend that a farm payment be made to the extent that the planted areas of a commodity produce less than 75 percent of the planted acres times the established per acre program yield, with adjustments based on a formula reflecting domestic use, export, and carryover of the commodity.

We also propose an Emergency Feed Program which would transfer from the Federal Disaster Assistance Administration to the Secretary authority to designate emergency feed areas. This would offer a livestock producer suffering substantial loss of his own farm-produced feed flexibility in buying feed from the source he chooses.

Those are the basics of our proposals for legislation that we think will meet the shared goals of the Administration and this Committee: to protect those who produce our food and fiber and those who consume our farm products from natural or economic disasters, and to sustain a profitable, viable farm economy at the least cost to farmers, consumers, and taxpayers.

Our price support loans are set at export-oriented levels to keep U. S. grain competitive in the world market. The reserve and the income support provisions give both farmers and consumers some measure of pocketbook assurance. Income support and the end of the out-dated acreage base give farmers even more freedom to decide what to plant and when to market than they have today.

Food for Peace

I recommend an extension of P.L. 480 for four years, with several modifications.

Currently, section 111 of P.L. 480 requires that at least 75 percent of Title I commodities be allocated to countries with a per capita gross national product (GNP) of $300 or less, based on World Bank data.

I propose an amendment to provide that the poverty criterion be the level established for the World Bank's International Development Association (IDA) credits.

The World Bank updates its IDA poverty criterion periodically. This is being increased from a per capita GNP of $375 to $520 (in 1975 U.S. dollars) to account for inflation between 1973 and 1976.

The IDA list is internationally recognized, is reviewed periodically by an international institution, and provides an accepted poverty criterion. We believe it would provide a firm and useful basis for allocating Title I commodities to the poorer nations.

At present, the only basis for varying from the 75-25 percent requirement on the initial allocation is a certification by the President to Congress that the food commodities were needed for humanitarian purposes in a country falling within the 25 percent category.

I propose that the annual authorization for Title II be increased from $600 million to $750 million.

This adjustment would make it possible for the United States to be more responsive to humanitarian needs of less developed and developing nations. It would be adequate, in our opinion, to meet requirements of up to 1.5 million metric tons.

I propose a specific amendment that would permit the Commodity Credit Corporation (CCC) to be reimbursed at the export market price for Government-owned commodities made available under Title II.

Export market prices of commodities, such as non-fat dry milk and peanut oil, are substantially below CCC's acquisition costs under the farm price support program.

To reimburse CCC at its higher acquisition cost would reduce the quantity of commodities which could otherwise be made available with funds allocated for Title II. Therefore, less expensive commodities are substituted. The proposed change in reimbursement of CCC would facilitate the use of price support inventories in the Title II program.

I propose that the criteria to be followed in determining the availability of commodities be amended to provide a basis for making commodities available in times of limited supplies so as to meet natural disaster needs and multi-year commitments to foreign nations for humanitarian food needs.

This is considered prudent and practical to enable parameters to be set for long-range planning by participant nations and to meet objectives for world food planning.

I believe that the intent and purpose of P. L. 480 would be best met with the proposals I am submitting.

As such, the overall program would serve as a viable device to aid people who need help in such a way that they can help themselves. It would be an integral part of our world food strategy.

Mr. Chairman, that completes my statement. I appreciate this opportunity to present the Administration's proposals, and I will say again that I stand ready to work with you and the Committee in developing legislation to meet our shared goal of a sound food and fiber policy that will serve this country best. I will be pleased to respond to your questions.

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